

<b>Committee(s)</b>	<b>Date(s):</b>
Policy and Resources Committee – for decision Planning and Transportation Committee – for information	15/11/18 20/11/18
<b>Subject:</b> City Corporation’s Proposed Approach to Carbon Offsetting	<b>Public</b>
<b>Report of:</b> Carolyn Dwyer – Director of the Built Environment	<b>For Decision</b>
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### Summary

The Corporate Plan commits the City to “Provide a clean environment and drive down the negative effects of our own activities” as part of a longer term aim to move to a Zero Carbon Emissions City. Development within the City provides opportunities for carbon emission reductions in new buildings or off-setting contributions where this is impractical on-site. The purpose of this report is to set out the City Corporation’s approach to the collection and allocation of carbon offsetting contributions associated with development in the City, which will assist in the move to a Zero Emissions City.

The London Plan and the City’s Local Plan set targets for carbon emission reduction through development relative to Building Regulations requirements. A carbon offsetting contribution is payable where development is unable to meet these carbon emission reduction targets on site. It is estimated that through carbon offsetting more than £2.3 million will be available over 5 -7 years on completion of developments that have already been granted planning permission. Contributions are likely to increase due to tightening of the London Plan policy from 2019 when all development will need to be zero carbon. The current cost of carbon is set at £60 per tonne and will increase to £95 per tonne in 2019 in line with draft London Plan recommendations.

Carbon offset funds received will be used to deliver reductions in carbon emissions from retrofitting measures in publicly owned operational buildings (i.e. excluding “investment properties”) where those measures provide additional carbon emission reductions that would not otherwise be achieved. The range of projects is identified in Appendix 3. Project approval will be through the Corporate Projects procedure. Funds will be pooled and ring fenced for carbon reduction projects as defined in the Planning Obligations Supplementary Planning Document (SPD). The Built Environment Department will oversee administration, evaluation and monitoring of carbon-offsetting contributions. The City Surveyors’ Energy Team will manage implementation of carbon reduction projects.

### Recommendations

Members are recommended to

- Approve the proposed approach to carbon offsetting for the City.

## Main Report

### Background

1. Buildings are responsible for over 76% of the carbon emissions within London<sup>1</sup> with commercial buildings responsible for most emissions in the City<sup>2</sup>.
2. Redevelopment presents an opportunity to improve the energy and carbon performance of individual buildings and the City as a whole. Adopted planning policies in the London Plan and City of London Local Plan aim to secure carbon reduction, moving towards zero carbon buildings from 2019.
3. For new development, where developers are unable to meet London Plan carbon reduction targets on-site, the shortfall can be accounted for through a carbon offsetting financial contribution to the relevant borough which is secured through a S106 agreement.
4. The City Corporation has set up a “Carbon Fund” to receive offsetting payments. The London Plan requires that offsetting payments must be ring fenced to implement carbon reduction projects elsewhere. The Mayor of London’s Sustainable Design and Construction Supplementary Planning Guidance states that “it is essential that boroughs identify a suitable range of projects that can be funded through the carbon dioxide off-set fund” (paragraph 2.5.18) and that “preference should be given to retrofitting publicly owned property as this would provide wider community benefit” (paragraph 2.5.19)

### Current Position

5. The City of London Local Plan requires carbon offsetting contributions on major development, where the energy strategy shows that the development will be unable to meet the London Plan carbon targets. The London Plan requires residential development to be zero carbon and non-domestic development to achieve a 35% improvement over the current Building Regulations Part L requirements. Any shortfall is offset through a financial contribution which is secured through a S106 agreement and is payable to the local authority. In the City, this payment is due on completion of the development.
6. The carbon offsetting contribution is set to increase due to the adopted London Plan requirement for all development (residential and non-residential) to meet zero carbon standards from 2019. In addition, the GLA’s proposed cost of carbon is set to rise from £60 per tonne to £95 per tonne from 2019 when the draft London Plan is adopted. Viability testing of the draft London Plan indicates that zero carbon requirements would not impact adversely on the viability of development.
7. The carbon offsetting contribution is calculated using the following formula:

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<sup>1</sup> [https://www.london.gov.uk/sites/default/files/london\\_environment\\_strategy.pdf](https://www.london.gov.uk/sites/default/files/london_environment_strategy.pdf)

<sup>2</sup> <https://www.cityoflondon.gov.uk/services/environment-and-planning/sustainability/Documents/zero-emissions-city-2018.pdf>

$$\text{Carbon Off Set Contribution} = (T - R) \times Y \times Z$$

Where:

T is the target reduction in carbon dioxide emissions (tonnes CO<sub>2</sub>)

R is the actual reduction in carbon dioxide emissions (tonnes CO<sub>2</sub>)

Y is the number of years for which the contribution is payable, being 30 years

Z is the cost of carbon per tonne taken from the Mayor's Sustainable Design & Construction SPG (paragraph 2.5.12) being £60 per tonne of carbon dioxide

Further detail on the policy requirements for carbon offsetting and an example calculation is detailed in Appendix 1.

8. Several carbon offsetting agreements are already in place with an estimated total income of £ 2.3 million projected from developments in the pipeline. Over £1million is projected by 2020 from developments that are already under construction. The remainder will be paid on completion of development up to 2023. Appendix 2 shows the projected carbon offsetting contributions from the development pipeline.

## Options

9. In managing the carbon offsetting process there are several options which will influence the effectiveness of the fund in reducing the City's building-related carbon emissions. These include variation in the price of carbon, whether carbon equivalence is required for offsetting projects, types of carbon reduction projects eligible for funding and project sponsors. Different options for governance, allocation, administration and monitoring of the carbon offsetting fund have also been considered. The preferred approach is outlined below:
10. **Carbon price per tonne.** The price per tonne of carbon must be set at a rate that will not adversely affect the viability of development whilst providing sufficient funding for carbon reduction projects. Setting too low a price would risk developers opting to pay rather than improve carbon performance on site and might not provide sufficient funds for effective carbon reduction elsewhere.
11. The City's current carbon price of £60 per tonne is expected to rise in line with proposals in the draft New London Plan to £95 per tonne in 2019. This figure has been subject to viability testing as part of the London Plan review and found not to adversely impact on the viability of development London-wide.
12. **Carbon equivalence.** The London Plan requires that the carbon offsetting contribution must be ring fenced to deliver carbon reduction elsewhere. There is no requirement to deliver equivalent carbon savings to offset the development's shortfall over a 30-year period (known as carbon equivalence).
13. The City's Carbon Fund will be used for a range of projects without guaranteeing carbon equivalence. However, projects with the highest rate of carbon reduction per pound spent will be prioritised.

14. **Building related projects or wider project base.** Carbon reduction projects funded through financial contributions must provide additionality (emissions reductions that would not have occurred in the absence of the contribution). LED street lighting, tree planting, electric charging points and improvements in the energy efficiency of buildings are all project options. To minimise the City's total emissions from its building stock, building related projects should be prioritised. Building related carbon emissions are reflected in national statistics<sup>3</sup> whereas carbon reduction for other sources is not.
15. The City Carbon Fund will focus on carbon reduction projects in the City Corporation's operational buildings thus reducing the City's total building related carbon emissions.
16. **Project sponsor** – in administering the carbon offset fund the City Corporation could consider bids for funding from a range of different organisations, public, private and third sector. The administrative costs associated with processing bids and ensuring compliance with regulatory requirements would be disproportionate to the levels of funding available in the initial phase. Funding bids from other organisations may be considered in the future. A review of carbon offsetting approaches across all London Boroughs carried out for the GLA<sup>4</sup> found that at the time of the review only 7 boroughs had spent any offsetting funds on projects. Of those boroughs that identified projects the majority listed public or community buildings. This is consistent with advice in the Mayor of London's Sustainable Design and Construction Supplementary Guidance that preference should be given to publicly owned property where wider community benefit can be achieved. It is important to ensure that the funds can be spent as efficiently as possible to avoid disproportionate administration costs and to ensure that they do not have to be repaid under the S.106 Agreement terms
17. Therefore, the City Carbon Fund will initially be spent on carbon reduction projects for City Corporation owned operational buildings.
18. **Funding allocation** Analysis shows that carbon offsetting contributions could yield up to £2.3 million on completion of developments which are currently in the planning pipeline. This level of contributions is likely to increase from 2019. Allocation of this funding must follow an open and transparent process.
19. The City Carbon Fund will be used for carbon reduction projects on City Corporation owned properties (excluding investment properties) where the widest community benefit can be achieved and where measures will deliver carbon reductions additional to those which could otherwise be achieved. The projects will be proposed by the City Surveyor's Corporate Energy Team, within the range identified in Appendix 3, with a capital spend of over £50,000, and considered through the Corporate Projects procedure. The focus on buildings in the City accords with Mayoral advice and will bring local benefits that will be recognised in national monitoring programmes which are published at local authority level

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<sup>3</sup><https://www.gov.uk/government/statistics/uk-local-authority-and-regional-carbon-dioxide-emissions-national-statistics-2005-2016>

<sup>4</sup> [National Energy Foundation "Review of Carbon Offsetting Approaches in London" 1 June 2016](#)

associated with residential, commercial and transport carbon emissions. In addition, the City Corporation will continue to address climate change issues in other ways such as its management of open spaces and trees which absorb carbon.

20. **Administration, evaluation and monitoring.** The administration, evaluation and financial and carbon monitoring for the City's Carbon Fund will require additional resource. Administration costs are required from developers to cover the costs incurred in drawing up s106 obligations and monitoring costs are secured for the review of submitted documents. These funds would cover planning officer's administration and monitoring of the City Carbon Fund including publication of an annual monitoring report. Monies will be drawn on as additional duties emerge and periodically reviewed. Project evaluation and implementation costs will be included in the project proposal.
21. The City's building and transport related carbon emissions are published annually by BEIS at local authority level. The use of carbon offsetting funds to benefit the carbon performance of local building stock will be reflected in this Government monitoring. Other options which focus on projects outside the City or non-building related projects such as additional tree planting would also bring benefits, but these would not be reflected in such monitoring. This report therefore proposes that building related projects within the City are prioritised, thereby reinforcing the drive to a more energy resilient, low carbon City. This is in line with the Mayor's Sustainable Design and Construction Supplementary Planning Guidance which states that in spending the carbon offsetting fund "Preference should be given to retrofitting publicly owned property as this would provide wider community benefit."
22. Annual reviews will evaluate the effectiveness of this approach. As the level of funding available through the City Carbon Fund increases this approach will be reassessed to consider a wider range of sponsors and projects.

## **Proposals**

23. Carbon offsetting provides an opportunity to accelerate the City's progress towards achieving zero carbon and becoming a Zero Emissions City, through suitable investment in carbon reduction projects in the City's buildings. The preferred options outlined in the previous section provide the basis for management of this source of funding to deliver the most effective contribution to carbon reduction in the City.
24. Where major development cannot meet London Plan or City Local Plan carbon reduction targets on-site, contributions to the City Carbon Fund will be secured through S106 agreements. Contributions to the City Carbon Fund will be pooled and ringfenced for carbon reduction projects which improve the carbon performance of publicly owned buildings within the range identified at Appendix 3. Approval of suitable projects will be through the Corporate Projects Gateway Approvals process and monitoring will ensure that the City Carbon Fund is appropriately managed, contributing to the City's pathway to zero carbon.

## **Corporate & Strategic Implications**

25. The Corporate Plan 2018-23 includes the aspiration to positively impact people and the environment by championing responsible practices to improve economic, social and environmental outcomes. This proposal will improve the environmental outcomes for the City and has the potential to improve social outcomes depending on the nature of the projects funded.
26. The City of London Responsible Business Strategy commits the City to implementation of a carbon offsetting scheme to invest in carbon reduction projects through the City Carbon Fund.

## **Implications**

27. Carbon offsetting provides a new funding source for carbon reduction projects but will need to be managed effectively and transparently.
28. Under current London Plan policy and carbon price (£60) the City Carbon Fund is set to receive £2.3 million on completion of developments that are already in the planning pipeline. The carbon price is set to rise to £95 per tonne in 2019.
29. The draft London Plan proposes that all developments should be zero carbon from 2019. This compares with the current requirement for a 35% reduction in carbon emissions compared with the 2013 Building Regulations. Under current policy a development with a 31% reduction (a 4% shortfall) would have to make a carbon offsetting payment of £14,500; under a zero-carbon requirement, this payment would increase to £234,000. Viability testing of the draft London Plan indicates that zero carbon requirements would not impact adversely on the viability of development.
30. The City Carbon Fund will initially be relatively small, it could potentially provide substantial funding for carbon reduction projects in the City in future years.

## **Health Implications**

31. The proposals outlined in this report do not have immediate health implications however failure to reduce global carbon emissions could have catastrophic health consequences for some parts of the world. The implementation of this report will assist in the move to a Zero Emissions City.

## **Conclusion**

32. Carbon targets and carbon offsetting provide a means of accelerating carbon reduction through development in the City. This report outlines the City Corporation's proposed approach to carbon offsetting, sets out the parameters for the allocation of funds and the implementation of carbon reduction projects and proposes a governance structure for this funding stream.

## **Appendices**

- Appendix 1 – Policy background and carbon offsetting calculations
- Appendix 2 – Development pipeline-estimated carbon offsetting contributions
- Appendix 3 - Indicative list of carbon reduction projects

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